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RUEHUJA/AMEMBASSY ABUJA 1497
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RUEHBY/AMEMBASSY CANBERRA 0763
RUEHDK/AMEMBASSY DAKAR 1127
RUEHKM/AMEMBASSY KAMPALA 1556
RUEHNR/AMEMBASSY NAIROBI 3954
RUEHFR/AMEMBASSY PARIS 1324
RUEHRO/AMEMBASSY ROME 1980
RUEHBS/USEU BRUSSELS
RUEHGV/USMISSION GENEVA 0654
RHEHAAA/NSC WASHDC
RUCNDT/USMISSION USUN NEW YORK 1718
RUEKJCS/JOINT STAFF WASHDC
RUEHC/DEPT OF LABOR WASHDC
RUEATRS/DEPT OF TREASURY WASHDC
RHEFDIA/DIA WASHDC//DHO-7//
RUCPDO/DEPT OF COMMERCE WASHDC
RUFOADA/JAC MOLESWORTH RAF MOLESWORTH UK//DOOC/ECMO/CC/DAO/DOB/DOI//
RUEPGBA/CDR USEUCOM INTEL VAIHINGEN GE//ECJ23-CH/ECJ5M//

UNCLAS SECTION 01 OF 04 HARARE 000172

SIPDIS

SENSITIVE
SIPDIS

AF/S FOR S. HILL
NSC FOR SENIOR AFRICA DIRECTOR B. PITTMAN
STATE PASS TO USAID FOR M. COPSON AND E. LOKEN
TREASURY FOR J. RALYEA AND T. RAND
COMMERCE FOR BECKY ERKUL
ADDIS ABABA FOR USAU
ADDIS ABABA FOR ACSS

E.O. 12958: N/A
TAGS: [EMIN](#) [ECON](#) [PGOV](#) [ZI](#)
SUBJECT: AMBASSADOR VISITS ZIMBABWE'S PREMIER PLATINUM
OPERATION; DISCUSSES RISK AND REWARD

REF: A. 2006 HARARE 1377

[1](#)B. 2006 HARARE 0629

Summary

[1](#)1. (SBU) On February 6, Zimplats executives guided Ambassador Dell on a day-long tour of the company's platinum mining and processing operations in the second largest platinum deposit in the world. Having made peace, temporarily at least, with the GOZ under pressure of expropriation by ceding a third of its claims, the company is undertaking a major expansion project and investing heavily in infrastructure. Although the company is in a favorable position for now, both business and sovereign risk remain extremely high. Lingering uncertainty over potential government expropriation, plus deep distortions in the economy and a looming regional electric power shortage keep the company's pace of investment cautious at a time when its claims, expertise, and high precious metal prices argue for maximum investment. End Summary

World's Second Largest Platinum Deposit

12. (SBU) Zimplats CEO Greg Sebborn and COO Jack Murehwa guided Ambassador Dell and econoff on a day-long tour of the company's mining operations in Ngezi and its processing plant in Selous, an hour's drive southwest of Harare. Zimplats' platinum claims lie in the unique mineral-rich geologic structure called the Great Dyke, which stretches 515 km across Zimbabwe passing just to the West of Harare. At its widest only 12 km across, the Great Dyke contains the world's second largest deposit of platinum group metals in four locations, and significant chromite, magnetite and other ore minerals.

13. (SBU) Owned 86 percent by South Africa's Impala Platinum Holdings (Implats) and traded on the Australian Stock Exchange, Zimplats is by far the largest of Zimbabwe's three platinum mining companies. Sebborn told the Ambassador that the company hoped to list on the Zimbabwe Stock Exchange this year with shares traded interchangeably, like Old Mutual shares, on both exchanges. The move would widen the company's ownership base and, the executives hoped, further relieve the pressure to "indigenize" that led the company to release 36 percent of its claim to the government last year. It also provides a market-based approach to indigenization rather than government mandated changes in ownership) usually imposed by fiat without investment or compensation to the foreign owners.

Massive Investment

14. (SBU) Following the agreement with the GOZ last year, the
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Zimplats Board approved the first US\$258 million phase of its long term expansion plan (Ref B). The investment will shift production entirely underground, where costs are lower and the recovery rate higher. Sebborn showed the Ambassador first hand the highly mechanized operation in which Zimplats mined and processed 2.16 million tonnes of ore per annum in a roughly 50:50 split between underground and surface excavation. He told the Ambassador the company currently employed 1,900 employees and contractors and was producing 85,000 oz platinum, 71,000 oz palladium, 1,500 tons of nickel, 1,100 tons of copper, and 11,000 oz gold (all associated metals) per annum.

15. (SBU) The executives showed the Ambassador Zimplats' extensive investment in infrastructure, which in scale and scope(if not style)resemble nothing so much as the original infrastructure build-up needed to explore and develop the early mining activities in South Africa more than one hundred years ago: the 77 km highway connecting Ngezi to the Selous processing plant, built at a cost of US\$19 million to handle the 105 ton haulage trucks that the Ambassador observed plying the route from mine to plant; a 132kV electric power line, and plans for a further US\$25 million investment to upgrade the national electric power grid so Zimplats can import power from Botswana; a fiber optic line and switching equipment built for TelOne; water purification plants, and a fresh water reservoir.

16. (SBU) The tour included a visit to the town's new residential area, where neat one, two and three-bedroom employee homes are under construction along freshly bulldozed streets in what had recently been wilderness. Murehwa lamented the missed opportunity for local manufacturers to profit from the boom, as the gross overvaluation of the Zimbabwean dollar compelled Zimplats to import 80 percent of the building materials rather than purchase them locally at the official exchange rate of Z\$250:USD (the parallel exchange rate is about Z\$10,000:USD). Sebborn noted that the company had made a significant investment in the local primary school, which would pay dividends by providing the company with well-educated workers in the future.

Uniquely Favorable Conditions

¶17. (SBU) Sebborn said that over the next 16 years, Zimplats could, under favorable investment conditions, expand annual platinum production to one million ounces, and invest a further US\$3.25 billion (excluding refineries) in an integrated production chain of mines, concentrators, smelters, and later base metals and precious metals refining.

Employment could peak at 12,000 workers including contractors. Counting family members, rural Ngezi could swell to a population of 36,000.

¶18. (SBU) Sebborn noted that Zimbabwe's especially shallow platinum reserves allowed the company to expand production quickly from a technical point of view. The new, gently

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sloping Ngezi portal, down which the engineers walked the Ambassador to the room-and-pillar operation, will reach a maximum depth of a mere 70 m compared to South Africa's very deep platinum mine shafts. Sebborn also explained that Zimplats' geologists and technicians had learned to identify the precious metals in the all-gray rock face, where the first mining company to try to exploit the deposit in the 1990s had failed.

¶19. (SBU) Also in Zimplats' favor, the company inherited the right, negotiated in the first joint venture in which it was a minority stakeholder, to hold all of its earnings offshore in US dollar accounts, not "subject to the whim of the Reserve Bank of Zimbabwe," in Sebborn's words. This arrangement was doubly significant, as Zimplats was financing its expansion primarily through re-investment of its own capital, aided by buoyant precious metal prices.

But Risks, Constraints on Growth Abound

¶10. (SBU) Sebborn said that the company had lingering concerns that the government might once again use indigenization as an excuse to try to expropriate more of the claim. He agreed with the Ambassador that the government was desperate for hard currency and saw mining as a sector it could exploit. Sebborn said another factor slowing Zimplats' expansion was the severe price distortions in the economy, which unsettled the sector, discouraged investment, and drove the best trained potential employees to emigrate. (N.B. Canada's Fraser Institute has rated Zimbabwe for two years running the worst place in the world for the mining business.)

¶11. (SBU) In addition, according to Sebborn, Zimplats had a reliable electric power supply through an agreement with the Zimbabwe Electric Supply Authority (ZESA) to pay for power in hard currency. However, its most optimistic expansion plan foresaw a rise in the company's power requirement from slightly under 50 MW today to about 400 MW in 2018/2019. It was unclear where such a large increase in power could come from in light of Zimbabwe's increasingly severe power shortages.

Comment

¶12. (SBU) Zimplats came out of its 2006 wrangle with the GOZ over ownership of its massive claim, for the time being, in an enviable position. Its revenue is secure offshore, precious metal prices are soaring and its product is traceable and can only be processed to the end stage in a very few plants around the world - all outside Zimbabwe. It still has a claim on the vast majority of Zimbabwe's known platinum resources and it has kept for itself the easiest, shallowest part of the deposit to exploit.

113. (SBU) It appears that Zimplats has succeeded, for now at

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least, in convincing the GOZ not to kill the golden goose. At the same time, however, due to the uncertain investment climate, Zimplats is foregoing more substantial investment. Moreover, the GOZ's suspect approach to mining policy is frightening away other major foreign direct investors at a time when precious metal prices have rarely been higher and the government has never needed the revenue more.
DELL